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RUSSIA AS A WORLD POWER

BY CHARLES A. CONANT.

WHEN the Czar Nicholas II. recently determined to propose to Europe the modification of great armaments in the interest of the peace of the world, he acted from the far-sighted motives of public policy which have governed the economic measures of the Russian Government for many years. The leaders of Russian political thought evidently reached the conclusion that Russia only needed relief from the heavy burden of taxation necessary for maintaining her great armies, to place her in the front rank among the industrial nations of the world. They have been for many years directing the steps of the empire in this direction, with a singleness of purpose and a continuity of policy which are rendered possible by the absolute form of the Russian Government. To the average American the Russian Empire probably still represents a half civilized state, peopled by the oppressed victims of a military tyranny in the older portions, and given up to barbarian hordes and army outposts in the provinces east of the Ural Mountains. Whatever warrant for this conception may have existed in the past, it is rapidly ceasing to be true. Russia is organizing the machinery of her economic system in a manner to make her the early and dangerous rival of the great industrial nations. M. de Witte, the Minister of Finance, furnishes the key of the present policy of the Russian Government in the declarations of his last annual report to the Czar:

"The principal support of the economic and financial prosperity of Russia consists in the traditional policy, pacific and just, of her sovereigns. The principles bequeathed by the late Emperor Alexander III. and the sincere spirit of peace which animates your Majesty are guarantees that, in the future, as in the past, the foreign policy of Russia will be exempt from every aggressive disposition towards other states, with the view to the promotion of the well-being of our country, and that from this source our economic and financial system shall be menaced with no danger."

Whatever may be thought of the sincerity and truthfulness of this analysis of the foreign policy of Russia, the statement of the end to be sought—the care of the economic future of the country—is truthful and significant. M. Arthur Raffalovich, the accomplished financial agent of the Russian Government in Paris, in his valuable annual volume on the financial development of the world, *Le Marché Financier*, declares that the economic life of Russia has become the centre around which converges all the care of the government, the interest of the public, and the attention of foreign observers. “The country develops and concentrates its forces, and thus is able to accomplish the numerous reforms in other domains of Russian life, of which the need has long been felt.” This is a correct diagnosis of existing conditions in Russia. The whole energy of the state is being bent to the creation of a nation capable of competing in the field of manufactures, industry, commerce and credit with the great Western nations and with the United States. Remarkable progress has been made toward this achievement. The present economic system of Russia is eminently paternal, but finds excuse in the comparative infancy of the nation in matters relating to commerce and credit. That this system has its evils and leads the promoters of new projects “to consider the treasury of the state as an inexhaustible reservoir” for aiding their plans, is admitted by M. de Witte; but it seems for the moment to be the most efficient policy for equipping Russia with the means for entering upon the competition for political and commercial supremacy with the other industrial nations of the world.

The absence of parliamentary institutions, in spite of its latent evils, gives force, directness and promptness to every measure decided upon for the development of the country. In a democratic state, it is necessary to convince the majority of the people before any great reform can be accomplished. In Russia it is necessary to convince only the Czar and the Council of Ministers, which is made up of men trained for statecraft and undeterred from following their economic convictions by the exigencies of party politics. The leading statesmen of Russia are educated in the best schools of economics of France and Germany, they usually serve the state for many years when their services are efficient, and their combined experience and wisdom is applied to the important problems with which the government has had to

deal in raising Russia from the condition of feudal times to a rank among civilized powers. There have been, within the limits of a little more than a generation, two striking illustrations in Russia of the difference between the power and efficiency of an absolute government in dealing with serious national problems, and a government where it is necessary to convince a majority of the people before action can be taken.

These two illustrations of the directness of the Russian government in proceeding toward an object, determined after consideration to be a desirable one, are of special interest to Americans, because they run parallel with two of their own great problems of the same period—the abolition of slavery and the restoration of order to the currency system. Russia liberated the serfs by a ukase of the Czar, at almost the very moment when the States of the American Union were plunging into civil war upon the same subject. She resumed specie payments upon the gold standard in 1897, after a series of well-considered steps which have made her currency system one of the most secure in the world. Each of these measures was carried out within a few years after the plans were matured, without bloodshed or popular upheaval, or paralysis of industry and credit. While the final steps were being taken for the liberation of the serfs, upon a basis which compensated the owners and set the liberated class at once upon the footing of responsible property-owning subjects, the great Republic of the West was fighting a costly civil war, whose result was the liberation of the servile race, but without providing homes or a future for its members. A generation later, when the Russian Minister of Finance was calmly proceeding by successive steps to plant the credit of Russia upon an unassailable basis, the American Union was again torn with dissensions, banks were failing and industry was paralyzed, and Congress was sitting in extra session to undo the financial blunders to which the clamor of special interests and political cowardice had led a few years before.

The liberation of the serfs was conceived by Alexander II. soon after he succeeded to the power of Nicholas I. When the time came for action, in November, 1857, he issued a decree authorizing the Lithuanian nobles to form committees "to improve the condition of the serfs." He calmly assumed, in spite of some opposition on the part of the land-holders, that they were

favorable to reform, and followed up his policy in Lithuania by giving similar authority to the nobles in other provinces. A declaration in 1858 defined the principles of his plan, by which the peasants were to buy their houses and gardens, with land in addition sufficient to making a living, and were to be aided in the purchase by advances from the government to the land holders. A ukase of February 19, 1861—the Russian proclamation of emancipation—crowned the preliminary work and declared the abolition of serfdom.

The details of the financial operations by which this great reform was accomplished were set forth in a recent number of that invaluable mine of Russian statistics, the *Bulletin Russe de Statistique Financière et de Legislation*. The indemnity allotted to land-holders on account of the serfs from 1862 to 1891 reached the sum of 892,139,163 rubles (\$450,000,000). Of this amount the government retained in various years 316,763,718 rubles to offset mortgage loans made to the land-holders, and issued the remainder in 5 and 5½ per cent. interest-bearing securities. The number of lots of land awarded to the serfs was 9,239,752 and the principal charged against them over a period of thirty years was 886,340,871 rubles. The aggregate amounts thus charged, including interest, from 1862 to 1891, were 1,040,167,863 rubles, and the amounts collected over the same period were 1,000,307,140 rubles (\$520,000,000). The land was taken in many cases by associations of the serfs, which afforded a guarantee for payment, and left the question of individual distribution to local assemblies. This great work was not without incidental blunders and complaints, but it was accomplished without shock to the economic system, and has left the former serfs in no such position of irresponsible isolation as the emancipated race in the United States. The relative cost of the liberation of the serfs in Russia and the war for the preservation of the Union in the United States stands in the relation of about \$500,000,000 in the case of Russia, to \$6,844,571,431 in the case of the United States.* Professor Seignobos, in his recent "Political History of Contemporary Europe," after referring to the difficulties growing out of the small lots awarded to the serfs and the high valuation of the land in certain cases, says:

* This is the computation of Prof. Albert S. Bolles, "(Financial History of the United States," III., 244), including \$437,744,192 for army pensions to June 30, 1879.

"The emancipation of the serfs transformed Russian society. In giving to the mass of the population legal liberty and the administration of their local (communal) affairs, it has made of Russia a modern nation. It prepared her to deliver herself from habits of arbitrariness, servility and laziness produced by the long practice of servitude, and assured her the legal conditions of private enterprise and regular public administration. Economic progress was marked, after the death of Alexander II., by the increase in the area of cultivated lands, in the price of land, in the yield of the taxes, in the value of exports, and by the improvement in the peasant's manner of life."

The same energy and directness of action marked the measures taken to establish the gold standard which marked the plan for the liberation of the serfs. The accumulation of a gold reserve went on for many years under the management of farsighted and highly educated ministers of finance, but the actual resumption of specie payments was delayed, first by the Crimean War and then by the war with Turkey in 1877. When the gold reserve of the Treasury and the Imperial Bank had risen on January 1, 1895, to about \$500,000,000, M. de Witte, the Minister of Finance, laid before the Czar a carefully matured plan for giving a fixed value to the circulating paper money and gradually reaching the free interchange of gold and paper at the bank. From the beginning of 1895 to the beginning of 1897, a period of two years, successive decrees were issued which gradually accomplished all that the Ministry had planned, and placed the Russian Empire, without disturbance to vested rights or business interests, among the gold standard nations of the world.

A national three per cent. gold loan was issued for reimbursing to the Imperial Bank a part of its advances to the Treasury; gold contracts were authorized; special gold accounts were received at the bank and gold check books issued; gold certificates were issued and made legal tender for public dues; 693,000,000 rubles (\$350,000,000) in gold was paid out during 1896 by the Treasury and the bank; a fixed exchange value was given to the paper ruble; and gold coins were provided for at the new rate of exchange. Gold is now freely paid for notes at the bank, and the gradual contraction of the note circulation, with the increase of the gold funds to \$600,000,000, has increased the gold above the amount of the outstanding paper and given the notes of the Bank of Russia the character of gold certificates. The effect of these measures was discussed intelligently by the leading financial journals and aroused some differences of opinion, but there was

no attempt to inflame the prejudice of the masses against the policy of the government; there were no windy demagogues stumping the provinces declaring that "the gold standard is a conspiracy against the human race." Short shrift might have been made of such orators by the absolute government of Russia, but intelligent discussion by responsible economic students was cordially welcomed and carefully weighed in the councils of the Czar.

The part which Russia has been playing since the early eighties as a grain-producing country is well known on the world's exchanges, and will be passed over here for a few references to her growth in more highly organized industries. It is worth noting, in passing, that in the production of petroleum, Russia has become within a few years a serious competitor of the United States. The production of 1881 was 663,001 metric tons against a production in the United States of 4,612,600 such tons, the part of the United States in the production of the two countries being 874 in 1,000. The production of Russia increased to 3,183,418 tons in 1888, while that of the United States remained substantially unchanged. Both countries have advanced with rapid strides during the succeeding ten years, but Russia is now practically abreast of this country in the production of the world's supply. The latest complete Russian figures were those of 1895, when the production of the United States was 8,835,181 metric tons and of Russia 7,056,537 tons, but the single district of Baku in 1896 and 1897 almost equalled the entire Russian product of 1895 and greatly exceeded that of 1894.

The most striking evidence of the entry of Russia into the list of competing capitalistic countries is afforded by the incorporation of stock companies in recent years. A recent number of the *Bulletin Russe de Statistique* brought the list of mining, metal working, naphtha and salt companies down to June 14, 1898. The whole number of such corporations constituted under Russian laws was 205, with an aggregate capital of a little more than 500,000,000 rubles (\$260,000,000). Of this number 125 companies have been constituted since January 1, 1895, and these include nearly all of the companies with large capitals, ranging from 18,000,000 rubles downward. This is only a part of the list of Russian stock companies. Banking and credit societies are in operation to the number of 548, with a subscribed capital of 285,211,356 rubles, exclusive of the Imperial Bank and its many

branches. There are 293 corporations devoted to commerce and public works, life insurance, navigation, gas and electricity, with a subscribed capital of 177,124,144 rubles. There are also 536 industrial corporations, with a capital of 596,550,501 rubles. These 1,377 corporations, with an aggregate capital of 1,058,886,301 rubles (\$530,000,000) include all those paying the tax of five per cent. upon net profits, and the net profits reported averaged 13.06 per cent., running as high as 16.9 per cent. in the case of the discount banks, 36.8 per cent. in the case of the food societies, and to even higher figures in the case of certain special industries.

A statement of all the business enterprises subject to the patent tax (or business license) in 1895 shows transactions amounting to 8,739,087,700 rubles (\$4,500,000,000) for wholesale enterprises, with profits of 316,547,450 rubles (\$160,000,000), and transactions of 955,051,900 rubles (\$490,000,000), for retail enterprises subject to the tax, with profits of 102,212,680 rubles (\$53,000,000). The figures of the total transactions or receipts of various companies include about \$1,700,000,000 on account of the money paid into banks in the course of current transactions, but even if this amount is deducted, a total industrial activity, important enough to be subject to tax, amounting to \$3,250,000,000, represents no small volume of business for a country whose economic development is so recent as that of Russia. All these figures, moreover, are taken from the tax returns for 1895. The growth of economic activity since that time has enormously increased the number of corporations, the volume of transactions, and the collections on account of the government. The revenue collected from the patent and additional taxes increased from 28,934,339 rubles (\$15,000,000) in 1887 to 42,760,721 rubles in 1895 and 46,577,000 rubles (\$24,000,000) in 1897.

The development of Russia as a manufacturing and capitalistic country is raising there the same industrial questions which have arisen in Great Britain, France, Belgium, Germany, and the United States. The Russian labor laws did not regulate until recently any work except that of children, youths and women, and the relation between the laborer and his employer. A step in the path of other industrial countries was taken by the law of June 2, 1897, which fixed definite hours of labor for adult males. The law was desired as much by large manufacturers, in order to meet

the competition of establishments having an excessively long day, as in response to the demands of the laboring men themselves. The working day is still long, but the system of limitation, having been put in operation, is likely to be continued, with the increased productive power of the laborer and the increase of his earnings, until the Russian factory hand stands upon a level with his fellow in Western Europe and America. The law of June 2 extended the regulations regarding the inspection of labor and contracts with laborers to the whole of European Russia and Poland. The numbers of inspectors of labor was increased from 151 to 171, and the labor laws were extended to all establishments which employ sixteen or more skilled laborers.

Technical education is finding a large place in the policy of the Russian government. There were twelve higher technical schools in the country in 1896, containing 5,916 pupils. Schools of commerce were opened in 1897 under a law of April 15, 1896, at Kiew, Odessa, Varsovia, Moscow, Kharkow, Nijni-Novgorod, St. Petersburg and Lodz. A school of navigation has just been opened at Odessa, which is recommended by the United States Consul for imitation in this country. Professional primary schools were opened in many other towns, and agricultural schools and schools of horticulture in the farming provinces of both European Russia and Siberia. Projects of law were recently under consideration by the Department of Finance for the revision of existing legislation on stock companies, the creation of corporations for popular readings and libraries, a new code for commercial paper, the regulation of weights and measures, the reduction of duties upon agricultural machinery and manure, and a new classification of the *octroi* charges in cities. The tariff rates on agricultural machinery were reduced in 1893 and 1894, and the value of the imports of such articles rose from 2,644,230 rubles in 1888 to 5,286,954 rubles in 1896.

One of the best tests of the economic progress of a nation is the extent and flexibility of its system of credit. The deposit and check system has not attained the development in Russia which it has attained in some other commercial countries, but is gaining ground at a remarkable rate. The discounts at the Imperial Bank were 132,578,530 rubles on October 23, 1898, exclusive of the accounts at the branches, and the deposit accounts included 61,918,009 rubles payable on demand to individuals and 84,531,307

rubles to the account of other bankers, credit societies, and industrial and commercial corporations. Private commercial banks are rapidly obtaining a footing in Russia. There were forty such institutions in 1897, of which nine were at St. Petersburg, with a capital and surplus of 119,000,000 rubles; four at Moscow, with a capital of 36,300,000 rubles; and twenty-seven in the provinces, with capital and surplus of 86,300,000 rubles. The deposits in these forty banks on October 10, 1897, were 476,800,000 rubles (\$240,000,000), an increase of 86,700,000 rubles within a year. The deposits at St. Petersburg amounted to 219,000,000 rubles and at Moscow to 117,600,000 rubles.

The statutes of the Bank of Russia were subjected to a complete revision in 1894, and the new statutes, promulgated on June 24, 1894, declared the purpose of the bank to be "to facilitate, by means of credit for short terms, the movement of commerce and to promote the success of national industry and agricultural production." Besides the usual provisions for loans upon commercial paper, the bank was authorized within carefully guarded limits to make advances on agricultural products and industrial material. The maximum loan for industrial enterprises is 500,000 rubles and for a retail merchant 600 rubles. The maximum term for loans for material is three years, but periodical payments are required when the term exceeds six months. The bank is authorized to accept as security for loans to small farmers, peasants and mechanics, the guarantee of the provincial assemblies, mutual credit societies, and individuals chosen from among the inhabitants of the community who are satisfactory to the bank. The government made advances to the peasants of some 90,000,000 rubles during the famine of 1892 and the customs war with Germany in 1893, which were repaid only in installments over a considerable period of time.

Popular banks for assisting peasants and mechanics of small means are rapidly spreading over Russia. The beginning of 1897 found 720 of these associations in operation, of which the 608 making complete returns counted 218,100 members with deposits of 9,200,000 rubles. A congress was held at Moscow in March last for the study of questions relating to the extension of small credits, and to consider a plan for a central bank for supporting the rural banks, as in Germany and Austria. The growth of the Russian savings deposits has been phenomenal in recent years.

The balances due depositors were only 9,054,648 rubles (\$4,600,000) in 1880. This rose in 1890 to 147,042,901 rubles and in 1895 to 377,165,352 rubles. The latest available report, giving the deposits at the end of August, 1898, shows balances of 508,512,000 rubles (\$260,000,000) distributed among 2,675,536 separate accounts. An analysis of the accounts was published in 1898 which showed that on January 1, 1897, the farming population had on deposit 66,437,000 rubles; mechanics in the cities, 33,288,000 rubles; factory employees, 12,076,000 rubles; merchants, 34,588,000 rubles; and domestics 29,829,000 rubles. An interesting indication of the improvement in the conditions of living, such as was noted in England earlier in the century, is the increased consumption of sugar. The taxes paid upon this product were only 23,161,725 rubles in 1887; they were 55,476,000 rubles in 1897.

The Russian railway system is also attaining a development which is putting the country abreast of the great transportation systems of the world. A comparison of the mileage in 1895 showed Russia, not including Finland and Siberia, in the possession of 36,585 kilometers of line, while France had 36,337 kilometers. The figures on January 1, 1898, gave Russia, including Siberia, 40,300 kilometers. With the addition of the Trans-Siberian line and the construction of the past few years, Russia is far ahead of France in actual mileage, although still below her in length of line *per capita*. Railway earnings have steadily increased with the development of commerce and the extension of connecting lines. The gross earnings in 1881 were only 199,979,356 rubles (\$103,000,000) and the net earnings 55,538,549 rubles (\$28,000,000). The gross earnings of 1896 were 426,322,767 rubles (\$215,000,000) and the net earnings were 178,077,035 rubles (\$90,000,000). These figures do not approach those of the United States, where the gross earnings in 1896 were \$1,125,632,025 upon 180,891 miles of operated lines, and the net earnings were \$332,333,756; but American railroad men may well regard with envy the percentage of net earnings in Russia, which is nearly 45 per cent. of gross income, in comparison with the less than 30 per cent. of such earnings on American lines. The number of persons employed on the Russian lines in 1895 was 343,996, and their combined earnings were 109,795,743 rubles (\$55,000,000). M. Raffalovich declares that the existing lines

do not meet the constantly growing needs of Russian commerce. The transportation of merchandise over the lines of the West has especially increased since the opening of the Trans-Siberian. The four existing ports are hardly capable of handling the commerce of the Baltic, and it has frequently happened that grain transports have been stopped on the way to these ports because proper provision could not be made for discharging and receiving their cargoes.

The most important achievement of Russian railway engineering—the result at the same time of enlightened political foresight—is the Trans-Siberian Railway. This long thread of steel, connecting European Russia with the Pacific, was a dream of Russian statesmen as far back as 1850. It was not until the opening of the Ural line in 1880, which joined Perm in European Russia with Tiumen, on the Tobol, which flows into the Irtysh, that a long practical step was taken towards binding the empire together by a single railway system. Several parts of the line remain to be completed in Russian territory, but the most important uncompleted part is the Manchurian Railway, across the northern province of China. M. Pierre Leroy-Beaulieu, who recently traversed the line, and describes his observations in the *Revue des Deux Mondes* for August 15, 1898, expresses the opinion that it will not be completed for ten years. The contract has already been signed, however, for obtaining the money from the Russo-Chinese Bank, and the control of the road, although under a Chinese president, is substantially under the Russian Minister of Finance.

The entire line, from the foot of the Ural to Vladivostock on the Pacific Ocean, will have a length of 6,613 kilometers, or about 4,200 miles. It will be by far the shortest route from Europe to the Orient. The time from London to Hongkong is now twenty-five days by the Suez Canal and thirty-three days by way of the Canadian Pacific Railway. It will be reduced to twenty days by the Trans-Siberian. The advantage in the case of other European places and Asiatic ports farther north will be much greater. The trip from Paris to Peking can be made in sixteen days, where it now requires thirty-four days from France or England to Yokohama by the Suez Canal and twenty-five days by way of Canada. The passenger charges, moreover, are computed by M. Leroy-Beaulieu, including sleeping cars and meals, at about 800 francs (\$160) from Paris to Northern China, as compared with charges

of 1,800 francs (\$360) by the present steamer routes. The charges will be less favorable upon bulky freight from Western Europe, but for the interior of Russia the opening of the railway means that the resources of the East are at her disposal, and that she can deliver in the East her own products at a great advantage over her Western rivals. Business men throughout Europe will benefit by the mail service over the new railway, which will deliver letters in sixteen or eighteen days, in place of the month or five weeks now required. But the Russian merchants will enjoy the advantage of quicker communication and nearness to their new markets. The opening of new routes of communication has often involved the rise and fall of nations. It will not be contrary to historic precedents if, in the course of years, the development of the great trans-continental route which binds European Russia to Siberia should shift the centres of trade in the East, destroy the importance of many existing ports in China, and create new commercial centres in the heart of Asia, around which will gather the civilization of coming generations.

It is not surprising that Russian statesmen, with the vista of the economic empire of the future within their grasp, hampered by no necessity for pandering to the clamor of the moment in order to keep themselves in office, should have determined that Russia would gain enormously in the race with other industrial nations by devoting her whole energies to economic development. Hence the proposition of the Czar, that the world lay aside its arms and give its people an opportunity to devote themselves to industrial pursuits, looks directly to the future dominance of Russia in the commerce and finance of the world. It would be useless for Russia to attempt to fight such a power as Great Britain in the East until the completion of the Trans-Siberian Railway. She has accomplished wonderful results by the firmness and audacity of her diplomacy in China. When the railway is completed, with the economic development which will come in another period of ten years, she will be able to cope on land, if not on the ocean, with any force which can be brought against her. She will enjoy the advantage of occupying the inner line, from which she can strike at her enemies on the European or Asiatic flank with the force and directness of Napoleon when he was able to carry out his favorite policy of separating and conquering hostile armies.

Ten years of such economic development as Russia has witnessed in the ten years just passed will make her enormously stronger than she is to-day; thirty years will make her almost irresistible. The capacity for economic growth under modern conditions, when a nation has once obtained a fair start, is illustrated by the wonderful progress of the German Empire since 1870. Germany, from being a comparatively poor country, has become one of the great capitalistic nations of the world, threatening Great Britain in her own markets for manufactured goods and competing with British capital in the construction of railways and the creation of banks in South America, Africa and Asia. The estimated wealth of Germany in negotiable securities, according to calculations made in 1895 by the International Statistical Society, was \$18,000,000,000, and she stood second among the nations of Europe. Russia then ranked fourth, with \$5,000,000,000 of negotiable wealth, but this amount has greatly increased within three years. With a government controlled by the single purpose of promoting national advancement, with the best economic knowledge of all peoples at her command, with almost unlimited natural resources, and with an equipment of producing plant and saved capital sufficient to permit constantly accelerating progress, Russia promises in another generation to be the great competitor of the Anglo-Saxon race for the commercial and military supremacy of the world.

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